OFFICE OF THE
Auditor General
of British Columbia

REPORT ON FINANCIAL AUDIT WORK FOR THE 2019/20 FISCAL YEAR

March 2021

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The Honourable Raj Chouhan
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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Dear Mr. Speaker:

I have the honour to transmit to the Legislative Assembly of British Columbia the report titled *Report on Financial Audit Work for the 2019/20 Fiscal Year.*

Under section 11(1) of the *Auditor General Act*, my office is required to report on whether the province's summary financial statements are presented fairly in accordance with Canadian generally accepted accounting principles (GAAP). This report speaks to the results of our financial audit of the summary financial statements and related audit work.

Michael A. Pickup, FCPA, FCA
Auditor General of British Columbia
Victoria, B.C.
March 2021

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The Office of the Auditor General of British Columbia would like to acknowledge with respect that we conduct our work on Coast Salish territories. Primarily, this is on the Lkwungen-speaking people's (Esquimalt and Songhees) traditional lands, now known as Victoria, and the W̱SÁNEĆ people's (Pauquachin, Tsartlip, Tsawout, Tseycum) traditional lands, now known as Saanich.

REPORT HIGHLIGHTS

Government's summary financial statements (SFS) = largest audit in B.C.

Includes 160+ organizations and 50,000+ hours to complete

- Government should apply GAAP (generally accepted accounting principles) without modification. The regulation modifying GAAP should be rescinded.

Government reported:

$59B in REVENUE

$59B in EXPENSES

$102B in ASSETS

$94B in LIABILITIES

$72B in DEBT

$0.3B in ANNUAL DEFICIT

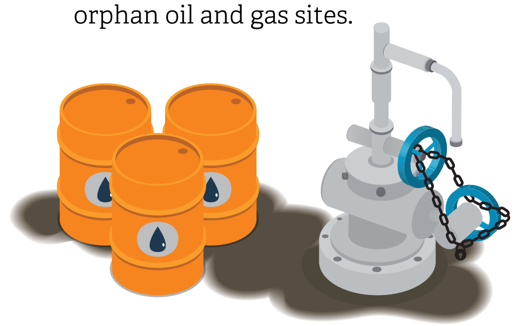
- $5.7B in liabilities (deferred revenue) should already be recorded as revenue.

- COVID-19 will have a much larger impact on the fiscal 2021 SFS than it did on the 2020 SFS.

- Government purchased Fortis BC's interest in a power project for $991 million.

FORTIS BC™

- The SFS include estimates for contaminated sites, including orphan oil and gas sites.



- Contingent liabilities to repay Canada for defaulted treaty loans were removed.

AUDITOR GENERAL'S COMMENTS

MICHAEL A. PICKUP, FCPA, FCA
Auditor General of British Columbia

About this report

The COVID-19 pandemic has affected people around the world, including here in British Columbia. The pandemic impacted how people interact with one another, including how we socialize and how we work. But the pandemic didn't mean that staff at the Office of the Auditor General stopped doing important work for the Legislative Assembly and for the people of British Columbia, such as auditing government's financial statements.

In mid-March, many people in B.C., if they were able to, started working from home. This included most of the staff at our office, as well as staff at all the major accounting firms who help us complete the audit of government's summary financial statements each year. The pandemic caused us to think about how we communicate and interact with each other in order to complete our audit work. It also caused us to question how we would be able to audit the amounts and disclosures included in the financial statements. And we asked what impacts the pandemic could have on the figures.

Some of the audit impacts of the pandemic are discussed in this report. We also discuss some interesting transactions that occurred during the 2019/20 fiscal year, including changes in contingent liabilities related to treaty loans to First Nations, the purchase of Fortis BC's interest in a power project, the estimation of liabilities for contaminated sites and orphan gas wells, and the estimation of certain taxes. Finally, we touch on new accounting standards that will be implemented over the next few years.

Our audit opinion on the summary financial statements

One thing that has not changed is the qualification of our audit opinion on government's summary financial statements.

My office's annual audit of government's summary financial statements is the largest financial audit in British Columbia. This year it encompassed over 160 organizations that form the government reporting entity, with an effort that took over 50,000 hours of office staff and contractor time to complete. It also requires assistance above and beyond our work from many private-sector auditing firms.

At the end of the audit process, we issue an auditor's report or audit opinion that is published with the summary financial statements. It says whether the financial statements present government's financial position and results for the year fairly and in accordance with generally accepted accounting principles (GAAP), which, for government, are Canadian public sector accounting standards (PSAS).

In 2010, government changed the *Budget Transparency and Accountability Act*, giving itself the ability to enact regulations that modify the accounting policies it follows. Government created a regulation for the recording of revenue that results in accounting that does not comply with GAAP.

This is the ninth year in a row we have differed with government on the way it records funding from other levels of government. Our disagreement is with government's method of accounting for funds received, primarily from the federal government, for capital projects. As of March 31, 2020, government has recorded $5.7 billion as deferred revenue (a liability) rather than as revenue.

We again urge government to remove its restricted contributions regulation and apply Canadian generally accepted accounting principles without modification.

Looking ahead

After reading this report, you may want to consider asking the following questions of government:

1. Why is it necessary to legislate how government organizations account for some revenue, rather than following Canadian generally accepted accounting principles?
2. Why is the range of uncertainty for personal income tax revenue so high, at plus or minus $500 million, as shown in Note 2?
3. What is government doing to clean up contaminated sites, while at the same time ensuring those who pollute will pay for the environmental remediation, as shown in Note 28(b)?
4. How is government preparing to implement the new accounting standards that will come into effect starting April 1, 2022?

Acknowledgements

I would like to thank all the government entities we worked with this year to complete our audit of the summary financial statements, as well as the Office of the Comptroller General. I also offer my sincere thanks to both my staff and the private-sector auditors for their contributions. This audit is a major undertaking and I appreciate everyone's efforts.

Michael A. Pickup, FCPA, FCA
Auditor General of British Columbia
Victoria, B.C.
March 2021

RESPONSE FROM THE OFFICE OF THE COMPTROLLER GENERAL

I appreciate the opportunity to respond to the Office of the Auditor General's comments.

The Province of British Columbia prepares its financial statements in accordance with the *Budget Transparency and Accountability Act (BTAA)* which, together with other relevant legislation, establishes the government's accountability framework for financial reporting. There are currently two regulations under the *BTAA* that are required to address consistency in the application of Canadian public sector accounting standards across the government's reporting entity.

In the opinion on the 2019/20 Summary Financial Statements, the Acting Auditor General identified one audit qualification that is outlined in this report.

Deferral of revenues

Government is responsible for establishing accounting policies that are in the public interest. The Province maintains its longstanding policy of recognizing restricted contributions in the same period that programs and services are delivered because it best meets the objective of public accountability, first defined in the report of the Budget Process Review Panel in 1999.

Adopting the auditors recommended approach of immediate recognition would result in:

- restricted contributions no longer being disclosed as a provincial obligation for future service delivery,
- budget and actual results no longer being directly comparable,
- future program spending would be artificially constrained during economic downturns when services are most urgently needed.
- I look forward to working with the new Auditor General to find a solution to this difference as accounting standard setters, both nationally and internationally, develop guidance on the concepts that support public sector financial reporting.

In this report, the Auditor General has outlined several items of interest that are included in the Summary Financial Statements. In all cases, he acknowledges his agreement with the recognition of these items in government's financial statements. Each year, a number of items are discussed during the course of this complex audit. We appreciate the work of the Office of the Auditor General in our common pursuit of continuous improvement.

Carl Fischer
Comptroller General Province of British Columbia

REPORT AT A GLANCE

Why we did this report

- Government financial statements are the basis for holding government accountable.
- There is more to the audit of the financial statements than the opinion.
- Through this report we highlight items of significance that are not always apparent when reviewing the financial statements.

Purpose of our report

To discuss the results of our financial audit of the summary financial statements of the Province of B.C. as of March 31, 2020, and related audit work.

Why the audit of the summary financial statements?

- The audit is required by the *Auditor General Act*.
- The summary financial statements indicate the financial health and annual results of the Province.
- The audit opinion on government's summary financial statements provides the public with assurance over the Province's financial reporting.
- Reliable financial statements with a clean audit opinion allow comparability between jurisdictions and over time.

Overall audit result

- The audit of the summary financial statements concluded with issuing an audit opinion that, except for one significant qualification (or area of concern), the statements fairly present the financial position and financial results of government at March 31, 2020.
- The qualification is because Government does not record certain revenues according to Canadian generally accepted accounting principles known as GAAP.

What we discuss

Audit opinion - 2019/20 summary financial statements

- The importance of generally accepted accounting principles
- One qualification with the deferral of revenues
- Our continued recommendation that government comply with generally accepted accounting principles without modification

Scope of our audit

- Includes over 160 entities that form the government reporting entity
- Includes over 50,000 hours of office staff and contractor time to complete
- For the fiscal year ending March 31, 2020, we audited $59 billion in revenue, $59 billion in expenses, $102 billion in assets and $94 billion in liabilities

What we discuss (continued)

Other interesting matters in our report	▪ Impact of COVID-19 on the audit work ▪ Government purchased Fortis BC's interest in a power project for $991 million ▪ The impact of recent tax changes ▪ Estimates for clean up of contaminated sites including orphan oil and gas sites ($505 million) ▪ Changes in the disclosure of contingent liabilities for First Nations loan guarantees to the Government of Canada
Looking ahead	▪ New accounting standards will be implemented in the next few years

BACKGROUND

The Summary Financial Statements and the Public Accounts

At the end of every fiscal year, the British Columbia government combines the financial information of all the entities within its control and produces a consolidated set of financial statements, called the summary financial statements (SFS). The information in the SFS is important to the people of B.C. as it provides an indication of the financial well-being of the province.

We audit the province's SFS each year. This is the largest financial audit in British Columbia, covering over 160 organizations that make up the government reporting entity, including ministries, Crown corporations, school districts, colleges, universities and health organizations. This work takes over 50,000 hours of office staff and contractor time. For the fiscal year ending March 31, 2020, we audited $59 billion in revenue, $59 billion in expenses, $102 billion in assets and $94 billion in liabilities, as reported by government.

Government publishes our audit opinion (the results of our audit) on its SFS in its annual public accounts report.

The public accounts report also includes:

- unaudited information, such as government's Financial Statement Discussion and Analysis Report
- information about the Consolidated Revenue Fund
- information about provincial debt, including the Auditor General's separate audit opinion on the summary of provincial debt and related debt indicators

The public accounts and SFS provide a lot of information about the finances of the government. However, this information is often at a very high level. Even some rather large transactions, such as the $991-million purchase of Fortis BC's interest in a power project that we refer to in this report, can be lost in the large amounts reported. In some cases, more details of transactions can be found in the financial statements of individual organizations.

Why do auditors issue opinions?

Audit opinions are an auditor's way of communicating whether the financial statements of an entity are presented fairly. An audit is not designed to examine every transaction and to catch every error that might be included in a set of accounts, nor is it designed to ensure that the notes to the financial statements describe every detail related to the entity. Audits should ensure there are no material, or significant, errors. An audit is performed using professional judgment, which includes focusing the audit work on areas that are significant and are more likely to be in error. When the audit is complete, the audit opinion explains any concerns auditors have with the quality and accuracy of financial reporting.

A standard audit opinion—one that doesn't have any qualifications—indicates that the financial statements can be held to a higher level of reliability than those with qualifications. When auditors issue a qualified opinion, they are often expressing concerns about the entity's compliance with generally accepted accounting principles (GAAP).

Qualifications should be rare. They represent concerns about the fair presentation of the financial statements. For the 2019/20 SFS, the audit opinion is, once again, qualified, because the statements did not comply with GAAP.

The Auditor General's report (or audit opinion) on government's SFS is included with the statements in government's public accounts. We have also included a copy of our audit opinion on government's March 31, 2020, SFS in the appendix to this report.

OUR AUDIT OPINION ON B.C.'S 2019/20 SUMMARY FINANCIAL STATEMENTS

Generally accepted accounting principles are important

All levels of government across Canada use a form of generally accepted accounting principles (GAAP) specifically designed for the public sector. These are the public sector accounting standards (PSAS).

Public sector accounting standards in Canada are specifically designed for the public sector by the Public Sector Accounting Board—an independent standard-setting body. These standards create consistency in financial reporting and allow the financial statements of the province to be more easily compared with those of other Canadian jurisdictions.

Starting in 2004/05, B.C.'s *Budget Transparency and Accountability Act* required government to prepare its summary financial statements in accordance with GAAP. This demonstrated government's commitment to providing the people of B.C. with high-quality financial reporting on its performance.

However, in 2010, government changed the *Budget Transparency and Accountability Act* to allow it to enact regulations that modify its accounting policies. Government created a regulation for the recording of revenue that modifies GAAP. The regulation is:

B.C. Regulation 198/2011—Restricted Contributions Regulation

This regulation directs government organizations to defer the recognition of revenue for restricted contributions where those contributions are used to purchase or build depreciable tangible capital assets, and to recognize that revenue at the same rate that the related asset is amortized to expense.

The GAAP standard for government transfers, included in PSAS, already covers how to account for restricted contributions; therefore, a regulation should not be needed to direct the accounting for this revenue.

Qualification: deferral of revenues

Our audit opinion, as required by the *Auditor General Act*, must state whether government's summary financial statements (SFS) are presented fairly, in accordance with GAAP.

Accordingly, our 2019/20 audit opinion on government's SFS indicates that, except for one significant qualification (area of concern), the statements fairly present the financial performance of government, in accordance with Canadian PSAS.

This is the ninth consecutive year that we have disagreed with government about how it accounts for contributions from others. The overall impact of the qualification is that government has understated its revenue, annual surplus and accumulated surplus by $5.7 billion, and overstated its liabilities and net liabilities by $5.7 billion. Government's 2019/20 reported deficit of $0.3 billion would therefore have been a surplus of $5.4 billion.

A common example of the issue is the federal government transferring money to the B.C. government. Canada often requires provinces and territories to use the funds for a specific purpose, such as the purchase or construction of an asset, like a new building, bridge or highway.

GAAP require governments to record these funds as revenue in their books as soon as the asset is bought or built. Governments can only defer the revenue to future years under special circumstances, such as when there are specific repayment terms if conditions attached to the transfer are not met.

Instead of applying GAAP as intended, the B.C. government records a portion of the money received each year for as long as the new asset is deemed useful. For example, if the B.C. government receives $40 million to build a highway in 2020, it doesn't record the $40 million as revenue in 2020. Instead, it records $1 million a year over the 40-year life of the highway.

Government created a regulation (B.C. Regulation 198/2011, mentioned previously) that requires taxpayer-supported Crown corporations to record the money they receive from other levels of government the same way the B.C. government records it, rather than in accordance with GAAP.

As noted in our audit opinion, as of March 31, 2020, government has recorded $5.7 billion received as a liability (deferred revenue / deferred restricted contributions). To comply with GAAP, this should be recorded as revenue.

$5.7 billion is a large adjustment to make in one year. As noted, it would change government's reported deficit of $0.3 billion to a surplus of $5.4 billion for the 2019/20 fiscal year. The reason the adjustment is so large is that the amount of the error has been growing since we first qualified our audit opinion in fiscal 2011/12.

GAAP require that an error not corrected by a government when the auditor first brings it to their attention cannot be corrected retroactively—i.e., the full amount of the error is recorded in the current fiscal year. In fiscal 2011/12 the error was less than $0.3 billion. The error has grown to $5.7 billion in fiscal 2019/20.

Not following GAAP clouds the true financial health of the province.

INTERESTING ISSUES IN THE SUMMARY FINANCIAL STATEMENTS

The summary financial statements (SFS) tell readers about more than just B.C.'s annual surplus or deficit. The financial statements, and in particular the accompanying notes, provide information to enable readers to understand the overall financial health of the province.

To help readers interpret public sector financial statements, we produced a guide, *Understanding Canadian Public Sector Financial Statements*, in June 2014. The guide describes what is in the statements and notes, and also provides readers with questions they might want to ask when reviewing a set of public sector financial statements.

Readers may have questions about the province's 2019/20 SFS. We list a few questions here and provide a reference to where the information to answer those questions can be found in the SFS. For example (and in no particular order):

- What organizations does the provincial government control and include in the financial results? [page 85]
- How did actual results for the year compare with those in the original plan? [page 40]
- How precise are the estimates used in the financial statements? [page 49]
- To what extent is government committed to purchasing future goods and services? [page 77]
- How do the annual results of self-supported government business enterprises (GBEs) affect the overall financial results of the province? [page 40]
- How does government manage interest rate risks on debt? [page 68]

The summary financial statements cannot tell the full performance story. But the Financial Statement Discussion and Analysis Report (FSD&A) that accompanies the SFS can answer some questions. The FSD&A gives government the opportunity to explain the annual financial results.

This section of our report focuses on some interesting specific issues related to our audit of the 2019/20 SFS, including the impact of COVID-19 on our audit work.

The impact of COVID-19 on the audit of the summary financial statements

The COVID-19 pandemic began to have a significant impact on the people of B.C. in March 2020, not long before government's fiscal yearend of March 31. As noted in SFS Note 40, the government declared a state of emergency on March 18, 2020, and on March 23, 2020, the legislative assembly authorized $5 billion in government spending for the 2020/21 fiscal year to support the pandemic response and economic recovery.

Our office released an information report titled *Summary of COVID-19 Pandemic Funding Allocations and Other Financial Relief Measures* in September 2020, which discusses government's proposed spending.

The short time frame between mid-March and the fiscal yearend meant there was not a significant amount of spending in fiscal 2019/20 related to the pandemic. Additional spending incurred was authorized either from existing budgets or through various statutory spending appropriations.

However, the pandemic did impact the way our office, and the private-sector auditors we rely on, performed our audit work. We also had to consider the impact of COVID-19 on yearend balances, such as the valuation of investments, the interest rates that are used to estimate long-term liabilities, the estimation of taxes owed to government and the collection of other accounts receivable.

Auditing in a pandemic

In mid-March 2020, our office, and most of the private audit firms in B.C., had to pivot from performing audit procedures with teams working on-site at our clients' premises, to working from home. At the same time, many of the organizations we audit were also moving to remote work. There was little time for formalized planning on how to move to this new model of working, particularly regarding how we communicate with each other and how we obtain audit evidence.

Auditing remotely does not change the auditing standards and the requirement for us to obtain sufficient and appropriate audit evidence to support our audit opinion. The pandemic caused a heightened risk in many areas of our audit work that we had to resolve.

For example, as our audit clients adjusted how they provided services to the public, there was a potential for policies and procedures to change abruptly, including the possibility that accounting and internal control procedures no longer operated the same way. We had to revisit the audit planning we had done up to mid-March and consider whether there were new risks of error in the financial statements.

The audit of the summary financial statements (SFS) is a group audit—meaning we rely on the work of private audit firms who perform many of the audits of organizations that are consolidated into government's SFS. We communicated regularly with the larger audit firms about COVID-19 impacts on their work, as well as impacts on the organizations they were auditing.

The changes in the way we worked, and the additional accounting and audit issues we encountered, meant additional time was required to complete the audits. However, despite the impacts of COVID-19 on government and government organizations, private-sector audit firms and our office, the overall audit of the SFS was completed, and our audit opinion issued, within two days of the original target date.

Auditing investments

At the end of March 2020, stock markets had fallen abruptly. Although at the time of writing this report the value of market investments had returned to pre-March levels, auditors had to consider what value the investments in government's financial statements should be recorded at as at March 31. Readers might assume that investment values in the March 31, 2020, SFS would be lower, and reductions in market value would be reflected in the annual surplus/deficit, but that is not necessarily the case.

Accounting for investments can be complex. Some investments are recorded as assets in the financial statements at their cost, rather than at their market value. Changes in market value would only be recorded in the annual surplus/deficit when the investments are sold, or if the investments are deemed to have a permanent impairment in value compared to their cost.

Alternatively, some investments are recorded as assets in the financial statements at their current market value. But changes in market value might be recorded either as part of the annual surplus/deficit or as a component of accumulated surplus/deficit (i.e., equity) until the investments are sold.

Two areas in the SFS that have significant investment assets are in Note 7—Equity in Self-Supported Crown Corporations and Agencies and Note 9—Other Investments.

Public sector accounting standards allow governments to record investments at cost or at market value. The SFS record investments at cost, including the amounts in Note 9. To complicate things, many government organizations that are fully consolidated, such as universities, have a policy of recording investments at market value, but when they are consolidated into the SFS on a line-by-line basis, the market value basis is converted to the cost basis of accounting.

For the investments in Note 9, recorded at cost, COVID-19 had no significant impact on the SFS's annual surplus/deficit.

Note 7—Equity in Self-Supported Crown Corporations and Agencies represents the investment the province has in government business enterprises such as the British Columbia Hydro and Power Authority and the Insurance Corporation of British Columbia (ICBC). ICBC in particular holds a significant number of investments. Self-supported entities use international financial reporting standards (IFRS), which are generally used for profit-oriented businesses, rather than public sector accounting standards. Entities that use IFRS account for their investments at their yearend market value.

Using market value means there is potential for more volatility in the reporting value of investments from period to period, and the impact of events such as COVID-19 would be included in any change in their value. As well, when entities such as ICBC prepare their financial statements, the change in market value is recorded as noted above, either in net earnings (annual surplus/deficit) or in other comprehensive income (OCI) (accumulated surplus/deficit). The nature of the transactions determines whether changes in value are recorded as part of net earnings or in OCI.

For ICBC, the COVID-19 pandemic had a significant negative impact on the bottom line. The decrease in investment markets resulted in an investment impairment expense of $317 million, which reduced the corporation's net earnings. This investment impairment expense ultimately reduced the revenue recorded in the SFS (net earnings of self-supported Crown corporations and agencies), and therefore increased the deficit for the year in the SFS.

From an audit perspective, we and other auditors had to examine whether the investments were recorded at an appropriate market value at March 31, and whether there were any permanent impairments of value that would cause investments to be recorded at a lower value. We agree with the values recorded in the SFS.

Auditing employee future benefits and employee pension plans

Similar to its impacts on investment market values, the pandemic also had an effect on the interest yields of bond investments (bond yields) at March 31.

Note 13—Employee Future Benefits and Note 17—Employee Pension Plans disclose these long-term liabilities of government.

There are a variety of employee future benefit plans across the government reporting entity that provide for post-employment benefits, compensated absences and termination benefits. Like employee pension plan liabilities, the province's retirement allowance liability, which is included in the employee future benefits note, is a complex estimate made using the knowledge and expertise of professional actuaries.

Actuaries use bond yield rates, in addition to demographic and employee data, to value the current cost of liabilities that stretch years into the future. An inverse relationship exists between bond yields and liabilities—i.e., an increase in bond yields increases the discount rate applied to the future liability, resulting in a lower present value being recorded in the financial statements, and vice versa. Decreases in bond yields would therefore result in increases in the value of liabilities.

Every three years, actuaries value the province's pension plan and retirement allowance benefit liabilities. Between valuations, liabilities are updated using estimated changes in plan membership and other assumptions. A key assumption is the expected long-term rate of return. Because underlying assets and liabilities are long-term, the rates, liabilities and underlying assets may not be adjusted for temporary, short-term market fluctuations or volatility, such as the market fluctuations resulting from COVID-19.

COVID-19 has been a significant event with large economic impacts, but the impact on these liabilities is considered to be short-term. Because of COVID-19's expected short-term nature, the rates used to value provincial pension plan and retirement allowance liabilities did not change.

From an audit perspective, we and other auditors had to examine whether the yearend decrease in investment yields could result in an increase in the liability for long-term employee future benefits and employee pension plans recorded in the SFS at March 31. We agree with the values recorded in the SFS.

Auditing revenue estimates and the disclosure of measurement uncertainty

For timely preparation of the SFS, government will estimate certain balance sheet and income statement amounts using the best information available. This is a normal part of the financial reporting process.

There is uncertainty in these estimates, verified by the fact that actual results differ from expectations. Therefore, in order to ensure financial statement users understand the uncertainty, public sector accounting standards (PSAS) require that entities disclose information about the uncertainty involved. Specifically, when a material change in an amount is possible, PSAS require an entity to disclose the nature, and the extent, of measurement uncertainty. Information on measurement uncertainty is disclosed in Note 2—Measurement Uncertainty.

For the year ending March 31, 2020, the extraordinary circumstances unfolding with COVID-19 added significant complexity for government in making some estimates, particularly for certain tax revenue streams including personal income tax and the employer health tax.

Personal income tax

Personal income tax (PIT) is government's largest tax revenue stream, providing over $10.5 billion in revenue in fiscal 2020. PIT revenue in a fiscal year comes from tax returns from two separate calendar years. When reporting this revenue for the fiscal year ending March 31, 2020, government recorded nine months of revenue for calendar year 2019 (calculated as three-quarters of the revenue estimated for the calendar year) and three months of revenue for calendar year 2020 (one-quarter of the revenue estimated for the whole calendar year). Given the timing of final tax assessments, government is required to estimate personal tax income for both the 2019 and 2020 calendar years. This meant government had to estimate the impact of COVID-19 on PIT revenue for the entire 2020 calendar year when estimating PIT revenue for fiscal 2020. Due to the timing of the preparation of the annual financial statements, this needed to be done in May 2020, five months into the 2020 calendar year, at a time when the full impact of COVID-19 on the economy was still uncertain.

Estimating PIT revenue is complex, and government uses an economic model to support its final assumptions, including the estimated household income growth for each calendar year. Historically, the growth rate used is generally in the range of 3.0% to 5.5%. For the 2020 calendar year, government assumed a household income growth rate of -7.0% to reflect the negative impacts of COVID-19 on the economy. This rate was based on internal analysis, review of historical data and a survey of private-sector forecasts of real GDP declines in B.C. This resulted in government estimating PIT revenue of $10,657 million for the 2020 fiscal year, a decrease of $707 million from prior year revenue of $11,364 million.

SFS Note 2—Measurement Uncertainty provides some information on PIT measurement uncertainty, including the potential range of plus/minus $500 million (see Exhibit 1). While we agree with the amounts in the SFS and the estimate range disclosed, we believe there could be more detail provided on the nature of the measurement uncertainty. Government's current disclosure only indicates that actual results could differ from estimates and that certain estimates may be subject to measurement uncertainty due to the COVID-19 pandemic.

EXHIBIT 1: *Personal income tax revenue and measurement uncertainty ($ millions)*

	Actual amount recorded	Measurement minimum	Uncertainty maximum	Range	
				Minimum	Maximum
Personal Income Tax	$10,657	$10,157	$11,157	$(500)	$500

Employer health tax and other tax revenues

In March 2020, the government announced the COVID-19 Action Plan, which allowed businesses to defer the filing and payment of the employer health tax (EHT), provincial sales tax (PST), municipal and regional district tax on short-term accommodation, tobacco tax, motor fuel tax and carbon tax until September 30, 2020. The program provided relief to businesses but added complexity to government's ability to estimate certain tax revenue streams.

The 2019/20 fiscal year was the first full year the EHT was in place (see discussion of this new tax in the impact of recent tax changes section of this report). Like personal income tax, EHT is based on B.C. remuneration paid in the calendar year; therefore, for fiscal 2020, the government records nine months of revenue related to the 2019 calendar year and three months of revenue for the first quarter of the 2020 calendar year. Payments are made in three instalments (June 15, September 15 and December 15), with the final return and payment due on March 31, 2020. With the extended filing deadlines, employers were able to defer the submission of their final return for 2019 and instalments for the 2020 calendar year until September 30. Therefore, government had to estimate the amounts due for the 2019 calendar year and for the first quarter of calendar 2020. For new taxes such as EHT, the absence of historical tax revenue information makes it even more difficult to estimate the revenue and accounts receivable amounts. EHT revenue for the 2020 fiscal year was estimated at $1,897 million.

Other tax revenue streams supported by taxpayer payments, such as PST, were also impacted by the COVID-19 relief program. The deferral of filing and payments resulted in government not having the final payment information, which meant the government had to make an estimate for this revenue through the end of March 2020, taking into account the economic impact of COVID-19.

SFS Note 2—Measurement Uncertainty provides little information on the nature of measurement uncertainty related to EHT. The note only indicates that actual results could differ from estimates, and that certain estimates may be subject to measurement uncertainty due to the COVID-19 pandemic.

While we agree with the amounts in SFS Note 2 and the estimate of ranges that are disclosed, we believe that PSAS require a fuller discussion of the nature of the measurement uncertainty, and this would provide useful information to the readers of the SFS.

Columbia Power Corporation and Columbia Basin Trust investment purchase

Columbia Basin Trust (the Trust) and Columbia Power Corporation (Columbia Power), both 100% owned by the Province of B.C., jointly own and oversee the operation of several hydroelectric power generation assets in the Columbia Basin (the Basin). The Basin is located in the southeast corner of the province. The corporate head offices of Columbia Power and the Trust are in Castlegar, B.C.

Columbia Power, a commercial Crown corporation, operates under the *Business Corporations Act* and was established by the province to own and oversee the operation of hydroelectric power generation assets in the Basin. The Trust was established by the *Columbia Basin Trust Act* with the purpose of managing its assets for the ongoing economic, social and environmental well-being of the Basin. The Trust uses its income from the jointly owned power-generating stations to support efforts by residents of the Basin, and Columbia Power provides dividends to its shareholder, the Province of B.C.

Note 39 of the March 31, 2020, summary financial statements briefly summarized the following significant event. On April 17, 2019, Columbia Power and the Trust completed the purchase of Fortis Inc.'s 51% ownership in Waneta Expansion General Partnership, which held their interest in the Waneta Expansion Limited Partnership (WELP), for $991 million. WELP owned and managed the Waneta Expansion hydroelectric facility, located near Waneta Dam on the Pend d'Oreille River in the Columbia Basin.

Government has stated that the purchase ensures local ownership of all hydroelectric projects and helps to secure increased revenues for the future. Columbia Power and the Trust already jointly owned (50/50) and benefited from their investment in three other hydroelectric investments—the Arrow Lakes Generating Station, the Brilliant Dam and Brilliant Expansion. In the 2018 calendar year prior to purchase, WELP recorded net income of $54.2 million (see Exhibit 2).

EXHIBIT 2: *Waneta Expansion Limited Partnership income by fiscal year* ($ millions)*

	2017	2018	2019
WELP Net Income	53.6	54.2	16.7**

* WELP fiscal year was for the period January 1 to December 31

** WELP income from January 1 to April 16, 2019

Before the purchase, Columbia Power held a 32.5% interest and the Trust held a 16.5% interest in WELP. Therefore, the purchase price was proportionally allocated based on purchase requirements so that each partner would have equal ownership on completion, Columbia Power paying $340 million and the Trust paying $651 million (see Exhibit 3).

The transaction was completed through a series of steps that involved the creation of a new entity, Waneta Expansion Power Corporation (WEPC), which assumed the assets, liabilities, rights and obligations of WELP. Upon completion, Columbia Power and the Trust each own a 50% interest in WEPC, which now owns and operates the Waneta Expansion hydroelectric facility.

EXHIBIT 3: *Original ownership and purchase price allocation*

	Original WELP ownership	Additional purchase	Final WEPC ownership	Purchase price ($ millions)
Columbia Power Corporation	32.5%	17.5%	50%	$340
Columbia Basin Trust	16.5%	33.5%	50%	$651
Total	**49%**	**51%**	**100%**	**$991**

In order to fund the purchase, the government (through the Ministry of Finance's debt management branch) borrowed the money and provided a $991-million fiscal agency loan to WEPC.

Impact on the summary financial statements of the province

The Trust and Columbia Power are both consolidated into the summary financial statements (SFS). The Trust, a government organization, is consolidated on a line-by-line basis, while Columbia Power, a government business enterprise, is recorded on the modified equity basis. The method of consolidation impacts how the purchase of WEPC is recorded in the SFS.

For the Trust, the additional purchase is recorded as an increase in the investment in WEPC (equity in self-supported Crown corporations and agencies) of $764 million and a decrease in the previous investment in WELP (other investments) of $113 million. There is also an increase in the loans for purchase of assets, recoverable from agencies, of $651 million to reflect the Trust's responsibility for its portion of the purchase price.

Because Columbia Power is recorded on the modified equity basis, the additional purchase in WEPC had no net impact on the SFS of the province. The increased investment in WEPC is offset by the liability for the purchase, meaning there is no change to the net assets of Columbia Power.

As a result of the debt and fiscal agency loans incurred through the Ministry of Finance, government has also recorded additional self-supported debt (Note 19) and loans for purchase of assets, recoverable from agencies (Note 11), of $991 million. The debt is classified as self-supported debt because this loan will be repaid by WEPC through income earned from commercial activities outside the government. Exhibit 4 summarizes the impact of this transaction on the SFS. We agree with the amounts recorded in the SFS.

EXHIBIT 4: *Impact of WEPC purchase on the summary financial statements ($ millions)*

	Fiscal 2020 impact increase/(decrease)
Financial Assets	
Equity in self-supported Crown corporations and agencies	764
Loans for purchase of assets, recoverable from agencies	991
Other investments	(113)
Liabilities	
Due to Crown corporations and agencies	651
Self-supported debt	991

The impact of recent tax changes

Medical services premiums and the employer health tax

A government may introduce new taxes or make changes to existing ones for a number of reasons, such as to achieve a certain policy objective or to respond to current circumstances. As part of Budget 2018, government announced changes to taxes collected in the province of B.C., including the elimination of medical services premiums (MSP), with the revenue to be replaced by the new employer health tax (EHT). We agree with the amounts recorded in the SFS. The discussion below is simply to highlight the impact of revenue changes in the SFS.

EHT became effective on January 1, 2019, with MSP phased out over two years, starting with a reduction to 50% effective January 2018 and full elimination effective January 1, 2020. Prior to the reduction, annual MSP rates were $900 for single individuals and $1,800 for families.

EHT is an annual tax paid by employers (including individuals, corporations, partnerships, trusts and government, as well as charitable or non-profit employers). The amount paid is based on an employer's B.C. remuneration paid to current and former employees in a calendar year:

- Employers paying less than $500,000 (less than $1,500,000 for charitable and non-profit employers) of B.C. remuneration are exempt.
- Employers paying between $500,000.01 and $1,500,000 (between $1,500,000.01 and $4,500,000 for charitable and non-profit employers) pay the reduced tax amount as calculated:
    - 2.925% x (B.C. remuneration - $500,000)
- Employers paying more than $1,500,000 (more than $4,500,000 for charitable and non-profit employers) pay the tax on their total B.C. remuneration as calculated:
    - 1.95% x total B.C. remuneration

The introduction of EHT and elimination of MSP has resulted in some expected volatility in tax revenue (EHT) and fee revenue (MSP) since fiscal 2018 (see Exhibit 5).

EXHIBIT 5: *Actual and budgeted revenue from EHT and MSP ($ millions)*

	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Budget*
Employer Health Tax**	-	-	$464	$1,897	$1,924
Medical Services Premiums***	$2,492	$2,205	$1,299	$998	-
Total	**$2,492**	**$2,205**	**$1,763**	**$2,895**	**$1,924**

***Source:** B.C. Budget and Fiscal Plan – 2020/21 to 2022/23

** EHT became effective on January 1, 2019

*** MSP was reduced to 50% on January 1, 2018 (affecting the last three months of fiscal 2018), and was fully eliminated on January 1, 2020, three months before the end of fiscal 2020

With the full elimination of MSP effective January 1, 2020, fiscal 2020 was the final year of MSP revenue. In that year it totalled $998 million compared to $2,492 million in fiscal 2017, the year before premiums were reduced. Revenue for fiscal 2021 for EHT is estimated at $1,924 million.

While MSP is no longer being charged at March 31, 2020, government still had $342 million in MSP accounts receivable.

Estimating the liability for contaminated sites

Note 28(b) of the summary financial statements (SFS) discloses that a $505-million liability has been recorded for the estimated cost of environmental cleanup of contaminated sites across the province. In Canada, the accounting and reporting of a government's liability for remediation of contaminated sites is determined by section 3260, Liability for Contaminated Sites, of the Public Sector Accounting Standards (PSAS) handbook.

Under PSAS, contamination is defined as the introduction into soil, water or sediment of a chemical, material or live organism that exceeds an environmental standard. A contaminated site, therefore, is a site where the concentrations of these contaminants exceed the maximum allowable under an applicable environmental standard.

Contamination can have significant negative impacts on human health and the environment.

An environmental standard is typically laid out in a statute, regulation, bylaw, order, permit, contract or agreement. As a result, it is legally enforceable and binding, and compliance is mandatory. In B.C., the *Environmental Management Act* governs contaminated sites in the province. The Contaminated Sites Regulation sets out the system for investigating and assessing contaminated sites. These legal requirements are administered by the B.C. Ministry of Environment and Climate Change Strategy.

Once a contaminated site is identified, the responsible party should calculate the cost of cleaning up the site to an acceptable level and record it as a liability in their financial statements.

The province can be held responsible for the remediation of a contaminated site when it caused or contributed to the release of a contaminating substance, or when the responsible party is unknown or unable to remediate and the province accepts the responsibility to remediate the site. In most cases the contaminated sites—for example, mines—are no longer in productive use.

The liability for contaminated sites disclosed in the SFS is an estimate, because actual future economic benefits that would be given up (i.e., costs incurred) cannot be known with certainty until the remediation occurs.

Government has a process for determining the estimate included in the SFS. A database of all known potential contaminated sites across B.C. is kept and updated regularly. The database tracks who the responsible party is (if known) and whether the site has contamination that exceeds established environmental standards. This process is used to identify whether the province is responsible for a contaminated site.

For sites where the province is determined to be the responsible party, expert analysis and opinions, such as engineer reports, are obtained in order to calculate an estimate of the cost to remediate each site. In cases where site-specific information is not available, estimates are made based on cost assessments for similar sites. The resulting estimate forms the basis for the recorded liability.

As detailed in SFS Note 28(b), the majority of the liability for environmental cleanup relates to mine sites. In the 2020 fiscal year, mine sites accounted for $315 million of the $505 million total liability, or approximately 62%. Transportation infrastructure was the second-largest site type, with $38 million, or 8% of the total. The remainder is made up of industrial sites, pulp mills, salt sheds, maintenance yards and miscellaneous sites.

BC Oil and Gas Commission: Estimating the cost of orphan sites

A specific type of contaminated site is orphan sites that are managed by the BC Oil and Gas Commission.

Oil and gas prices have dropped dramatically in the last decade, and some companies in the oil and gas industry have found it challenging to remain profitable. In Western Canada this has highlighted a significant issue: some oil and gas producers have not kept pace with remediating and restoring their old well sites, facilities and equipment. As the industry has contracted and some of these companies have gone bankrupt or disappeared, governments have had to directly ensure the remediation work is carried out.

If a company can no longer remediate its oil and gas sites, there is a potential for the sites to become "orphaned." Orphan sites are wells, facilities, pipelines and associated areas whose owner either has been declared insolvent or cannot be located.

A number of years ago, some of the financial burden of orphan sites in B.C. shifted from individual producers to the entire industry through creation of the Orphan Site Reclamation Fund (OSRF). Income for the OSRF comes from a levy on oil and gas industry permit holders. The BC Oil and Gas Commission (the Commission) manages the fund and ensures that remediation work on orphan sites is completed.

The number of orphan oil and gas sites in B.C. has increased from 34 in 2016 to 357 as of March 31, 2020, and this figure is expected to grow even more in the near future. The liability related to orphans has increased by approximately $74 million over the same time. This increase in orphan sites has had a significant impact on the financial statements of the Commission. The accumulation of this liability has resulted in the Commission running deficits totalling almost $42 million ($24 million in fiscal 2020 alone).

The process for designating an oil and gas site as orphaned is defined in the *Oil and Gas Activities Act*. A site is only eligible for designation if the permit holder is either insolvent or cannot be located. When there were only a small number of sites orphaned in any given year, it was a lot simpler for the Commission staff to estimate and account for the financial impacts of new designations.

Not only has the number of sites increased in recent years, but the complexity of the cases (both in the operation of sites and in the courts) has also increased. Some bankruptcy and restructuring proceedings take years to be resolved, making it difficult to estimate which sites will become orphaned, and when.

The orphan site liability reported in the Commission's March 31, 2020, financial statements is $81 million. It is important to realize that this figure is an estimate. While it is based on standard estimation processes and the best information available at the time, there is uncertainty in the figure because each site is unique, and both environmental standards and remediation costs may change in the future. In the Commission's financial statements it is noted that while $81 million is the best estimate of the liability, the actual amount could be as low as $60 million or as high as $116 million. We agree with the amounts recorded in the Commission's financial statements.

HOW IS AN ORPHAN SITE ESTIMATE PREPARED?

The estimate for a site is initially prepared without visiting the site. The Commission reviews the historical records for the site to determine:

- When did production start? This will indicate what standards were in effect and what technology would have been used.
- Did the site ever produce, and if so, what was the volume of production?
- What types of equipment and storage were permitted on the site?

Answers to these questions indicate the likelihood of contamination as well as potential areas of contamination concentration.

The Commission will also use reports from its inspectors, along with aerial photographs, maps and geologic information, to verify detail and determine if contamination is a risk to water sources or people. Staff put these factors into their model, which gives them an estimate of the likelihood and extent of potential contamination for a typical site with those qualities. This is the level of sophistication of the estimate for the first one to two years after a site has been designated as orphaned. During this time, the potential range for the estimate is greatest.

The next stage in estimation occurs when Commission staff or contractors conduct a site-specific liability assessment (SSLA). This involves extensive sampling and testing of the site to determine the nature, breadth, depth, and intensity of contamination on the site. Based on this information, staff can estimate the volume of contamination and assess the viability of different remediation techniques. They then update the estimate with this more detailed analysis. The potential range of remediation costs for a site with an SSLA is smaller, but the range can still be significant. Based on the SSLA, Commission staff will determine the nature and expected volume of work and will include this information in a remediation work package.

The site estimate is updated as work on the site yields new information. The certainty of costs increases as the percentage of completed work increases.

Changes in the disclosure of contingent liabilities for First Nations loan guarantees to the government of Canada

The summary financial statements include information about amounts owed to others and amounts that could be due to others if certain things were to occur. These potential obligations are called contingent liabilities and are included in Note 28(b). The key difference between a liability and a contingent liability is the uncertainty about whether future events, the outcome of which is not determined by the organization itself (in this case government), will result in government having to use its resources to pay amounts to others.

Public sector accounting standards provide guidance on how to determine what dollar amount, if any, organizations should record as an expense and liability, versus simply disclosing potential amounts in the notes to the financial statements.

The government has been in land claims treaty negotiations with Canada and First Nations since 1994. As of March 31, 2020, there were 65 First Nations in B.C. at various stages of land claims negotiations, including 40 First Nations in active or completed negotiations, representing two-thirds of First Nations people.

In the past, 80% of the funding for First Nations' treaty negotiation costs was provided by the Government of Canada in the form of interest-bearing loans that were to be repaid by First Nations once treaty settlements were made.

The province had committed to reimburse Canada 50% of any negotiation support loans in B.C. that defaulted, and 50% of all related accrued interest. As a result of this commitment, in fiscal 2019 the province disclosed that it was contingently liable to Canada for 50% of $547 million in loan and interest repayments if none of the borrowed and accrued amounts were repaid.

Canada changed its position on the repayment of these amounts during the fiscal year ended March 31, 2020, and unilaterally forgave the loans and accrued interest owing by First Nations to Canada. As a result, the government of B.C. is no longer contingently liable for any of the loans or interest. The disclosure that appeared in the fiscal 2019 summary financial statements has been amended for fiscal 2020 to describe the change. We agree with the disclosures included in the SFS.

LOOKING AHEAD: NEW CANADIAN PUBLIC SECTOR ACCOUNTING STANDARDS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

Over the next few years, several new Canadian public sector accounting standards (PSAS) will be made effective and could impact the summary financial statements (SFS).

- For the fiscal year beginning on or after April 1, 2022, government will need to adopt new rules for accounting and disclosure related to asset retirement obligations.
- For the fiscal year beginning on or after April 1, 2022, for government entities that have not already adopted them, there will be new standards for accounting and disclosure for four areas: financial statement presentation, foreign currency translation, portfolio investments and financial instruments.
- For the fiscal year beginning on or after April 1, 2023, government will need to adopt new rules for accounting and disclosure related to revenue.

Although these standards do not apply in the short term, it can take a lot of work for government to ensure each organization within the government reporting entity has the information available to implement the standards on time. We often work with government to analyze new standards and agree on the changes to be made.

The following are examples of potential impacts of these new standards:

- Government will need to record and disclose legal obligations associated with the retirement of tangible capital assets in productive use, such as asbestos in buildings. For entities with significant tangible capital assets, the process of assessing the assets for retirement obligations and quantifying estimates can be very time-consuming.
- Government will need to assess how it records financial assets and liabilities. Some will need to be recorded at fair value, such as equity investments that are publicly traded and derivative instruments. Government will also need to disclose a statement of remeasurement gains and losses, which quantifies the unrealized changes in fair value of those financial assets and liabilities.
- Government will need to assess its revenue streams to ensure it is recognizing revenue according to the new accounting standard, either when the performance obligation

related to the transaction has been met, or, if there are no performance obligations, when the government has authority to claim the revenue. There are separate standards for specific types of revenue, such as tax revenue, and these are not changing.

New international financial reporting standards (IFRS) could also impact the SFS. Although the SFS are prepared using PSAS, government business enterprises (GBEs), such as BC Hydro and ICBC, use IFRS.

Most government entities use PSAS and are consolidated into the SFS on a line-by-line basis. Any entities using accounting policies that are not the same as the policies used in the SFS have their figures adjusted during the consolidation process to ensure consistency of the accounting policies, and therefore the figures, included in the SFS.

GBEs are consolidated into the SFS using the modified equity method of consolidation. When government consolidates these entities using the modified equity method, PSAS do not require any adjustments to be made to convert from IFRS accounting policies to PSAS policies. Therefore, any upcoming changes in IFRS may have an impact only on the SFS line items related to self-supported Crown corporations and agencies (i.e., due from, equity in, and net earnings of self-supported Crown corporations and agencies).

- For the fiscal year beginning on or after April 1, 2023, GBEs will need to adopt new rules for accounting and disclosure related to insurance contracts in IFRS 17. This will affect any company that writes insurance contracts. The new standard will provide consistency and comparability, both among insurance contracts and across different companies and countries. Companies will measure insurance contracts at current value, which will provide more useful information about the current financial position and risk.

APPENDIX: AUDIT OPINION - MARCH 31, 2020 SUMMARY FINANCIAL STATEMENTS

OFFICE OF THE
Auditor General
of British Columbia

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of the Province of British Columbia

Qualified Opinion

I have audited the summary financial statements of the Government of the Province of British Columbia (Government) using my staff and resources. The Engagement Leader, Peter Bourne, CPA, CA is responsible for this audit and its performance. The summary financial statements of Government comprise the consolidated statement of financial position at March 31, 2020, and the consolidated statements of operations, change in net liabilities and cash flow for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In my opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of my report, the summary financial statements present fairly, in all material respects, the financial position of the Government as at March 31, 2020, and the results of its operations, change in its net liabilities, and its cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Basis for Qualified Opinion

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of Government in accordance with the ethical requirements that are relevant to my audit of the summary financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

Deferral of *revenues*

Government's accounting treatment for funds received from other governments and for externally restricted funds received from non-government sources is to initially record them as deferred revenue (a liability) and then recognize revenue in the statement of operations either on the same basis as the related expenditures occur or, in the case of funds for the purchase or construction of capital assets, to recognize revenue on the same basis as the related assets are amortized.

Under Canadian Public Sector Accounting Standards, Government's method of accounting for contributions is only appropriate in circumstances where the funding meets the definition of a liability. Otherwise, the appropriate accounting treatment is to record contributions as revenue when they are received or receivable. In my opinion, certain contributions from others do not meet the definition of a liability, and as such Government's method of accounting for those contributions represents a departure from Canadian Public Sector Accounting Standards.

This departure has existed since the inception of the standard, which applies to periods beginning on or after April 1, 2012. Had Government made an adjustment for this departure in the current year, the liability for deferred revenue as at March 31, 2020 would have been lower by $5,684 million, contribution revenue, surplus for the year and accumulated surplus would have been higher by $5,684 million, and net liabilities would have been lower by $5,684 million.

Other Accompanying Information

Government is responsible for the information they reported in the annual Public Accounts report.

My opinion on the summary financial statements does not cover other information accompanying the financial statements and, except for my independent auditor's opinion on the debt-related statements, I do not express any form of assurance conclusion thereon.

In connection with my audit of the summary financial statements, my responsibility is to read other information and, in doing so, consider whether the other information is materially inconsistent with the summary financial statements or my knowledge obtained during the audit or otherwise appears to be materially misstated.

If, based on the work I have performed on the other information, I conclude that there is a material misstatement therein, I am required to report that fact in this auditor's report. As described in the *Basis for Qualified Opinion* section above, I believe there are material misstatements in Government's accounting for the deferral of revenues. I have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the annual report affected by this departure from Canadian Public Sector Accounting Standards.

Responsibilities of Treasury Board for the Summary Financial Statements

The Treasury Board of British Columbia is responsible for the oversight of the financial reporting process including the approval of significant accounting policies. The Comptroller General of British Columbia (Comptroller General) is responsible for the preparation and fair presentation of the summary financial statements in accordance with the *Budget Transparency and Accountability Act* (BTAA), and for such internal control as the Comptroller General

OFFICE OF THE Auditor General of British Columbia determines is necessary to enable the preparation of the summary financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the summary financial statements, the Comptroller General is responsible for assessing Government's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting when the Government will continue its operations for the foreseeable future.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the summary financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with generally accepted accounting principles, being Public Sector Accounting Standards for senior governments in Canada. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement, when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decision of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the summary financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Government's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Comptroller General.

- Conclude on the appropriateness of the Comptroller General's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Government's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the summary financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause Government to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the summary financial statements, including the disclosures, and whether the summary financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The audit of the summary financial statements is a group audit engagement. As such I also obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the summary financial statements. I am responsible for the direction, supervision and performance of the group audit and I remain solely responsible for my audit opinion.

I communicate with the Chair of Treasury Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the Chair of Treasury Board with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Russ Jones

Victoria, British Columbia, Canada
July 8, 2020

Russ Jones, FCPA, FCA, ICD.D
Acting Auditor General

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